

PUBLIC EMPLOYMENT & RETIREMENT

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. The SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$23.9 million (\$5.5 million General Fund) and 161.3 positions – an increase of \$1.7 million and 24.7 positions.

Major Budget Proposals

Information Technology (IT) Classification Reform. The Governor requests \$571,000 (General Fund) and four positions to administer the selection phase for the new IT classifications. Last year, the Legislature approved funding of \$640,000 in the Department of Personnel Administration's budget to develop an IT classification and reform plan.

Centralized Internship Program. The Governor requests \$482,000 (reimbursements) and three positions to begin implementation of a centralized internship program for college students. The program would begin by placing science and engineering students within the California Environmental Protection Agency, but would eventually expand to other student majors and State departments. The Administration indicates that this is motivated by the surge in retirements that the State is expecting over the next five years.

FI\$CAL Positions: The Governor proposes \$794,000 (reimbursements) and nine positions to implement SPB's portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to about one million active and inactive members and about 441,000 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. The Constitution grants the PERS Board "plenary authority and fiduciary responsibility for investments of moneys and administration of the system" as specified. PERS sets the State's retirement and healthcare contribution levels – consistent with union contracts negotiated by the Governor and approved by the Legislature, and vested benefits. This budget item shows PERS benefit and administrative expenditures. State retirement contributions for current employees are built into individual department budgets and Control Section 3.60 (see also the "Control Section 3.60" summary later in this section). State funding for 2007-08 Health and Dental Benefits for Annuitants is Budget Item 9650 (See also the "9650 Health and Dental Benefits for Annuitants" summary later in this section).

The PERS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$13.6 billion (and 1,954 positions) – up \$1.2 billion (and 1.9 positions) from 2006-07. Administration is relatively unchanged, so this increase is due to increased benefit

costs. The State's retirement contribution for current employees is estimated at \$2.7 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. The State's 2007-08 cost for health and dental benefits for annuitants is estimated at \$1.1 billion General Fund – an increase of \$38 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). The State's retirement contribution and annuitant health and dental contribution will be re-estimated by PERS around the time of the May Revision and the budgeted amounts will be adjusted at that time.

Highlights

Health Care Decision Support System Innovative Progress Project. PERS requests \$3.3 million in 2007-08 and \$3.7 million in 2008-09 from the Public Employees' Contingency Reserve Fund to proceed with a competitive re-procurement for this health care data. This request would continue the practice of PERS contracting with a vendor to collect health-related data feeds from health plans and provide analytical tools to access, manipulate, and report on the data. Most PERS funds are continuously appropriated, but some health-related activities are appropriated in the Budget Act and Budget Change Proposals are submitted by the Department. Note, the special authority provided to PERS by the Constitution does not extend to the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to approximately 795,000 active and retired educators from public schools from kindergarten through the community college system. This budget item shows STRS benefit and administrative expenditures. General Fund support for STRS is reflected as a "non-add" in the STRS budget, and is formally budgeted in Item 6300 – in the education section of the budget.

The STRS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$8.5 billion (and 777.2 positions) – up \$774 million (and 60.5 positions) from 2006-07. Administration, including services to members and employers, is up about \$12 million, and benefit costs are up about \$761 million. In the 6300 Budget Item, the Governor is proposing \$1.048 billion (General Fund) in State contributions to STRS – up from the \$959 million provided in 2006-07. Note: 2006-07 funding included a one-time reduction of \$120 million that related to a past accounting adjustment.

Highlights

Reduction in Purchasing-Power-Protection Contribution. The proposed budget reduces the purchasing-power-protection State contribution from 2.5 percent of salary to 2.2 percent – for an annual savings of about \$75 million. The Administration indicates this contribution level is sufficient to maintain the existing benefit based on a 2005 actuarial analysis. Additionally, the Administration proposes to vest this benefit at the current 80-percent of purchasing-power protection. No change is proposed for the current-law State base contribution of 2.017 percent of teacher salary, which is separate from the purchasing-power-protection amount. In total, the Administration proposes State funding of \$1.048 billion for STRS: \$547 million for purchasing-

power protection (also called “Supplemental Benefit Maintenance”); and \$501 million for the base 2.017 percent contribution.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State workforce. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$93.6 million (\$33.7 million General Fund) and 233 positions for DPA – an increase of \$1.8 million and 16.6 positions.

Highlights

Savings Plus Program. The Governor requests \$928,000 (special fund) to fund increased costs for the Third Party Administrator and external auditors for the Savings Plus Program and the Alternative Retirement Program.

FI\$CAL Positions: The Governor proposes \$1.1 million (reimbursements) and 11.5 positions to implement DPA’s portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

9650 Health and Dental Benefits for Annuitants

This budget item provides funding for health and dental benefit services for retired state employees and their dependents. The California Public Employees’ Retirement System (PERS) negotiates health care rates with providers and these future negotiations will affect the final cost to the State. A revised cost number should be available about the time of the May Revision. This funding covers 2007-08 costs, and does not provide money to begin pre-funding retirement health costs for current State employees.

Budget Item 9650 includes \$1.057 billion (\$1.019 billion General Fund) for Health and Dental Benefits for Annuitants – an increase of \$38.0 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). In past years, the funding for this item was based on a forecast of budget-year costs. This year, the budget-year amount is the sum of current-year costs and the Medicare Part D subsidy (see also Medicare Part D discussion below).

Issues

Medicare Part D. PERS is expected to annually receive approximately \$38 million in federal subsidies from the Medicare Part-D drug program. The Administration proposes to use these subsidies to supplant a portion of the General Fund cost for Health and Dental Benefits for Annuitants beginning in 2007-08.

GASB 45. Government Accounting Standards Board Statement 45 (GASB 45) requires government financial reports to quantify the unfunded liabilities associated with retiree health benefits. Last year, the Legislative Analyst estimated the State liability may be in the range of \$40 billion to \$70 billion; and the annual cost to fully pre-fund this benefit over 30 years may be in the range of \$6 billion. No money is proposed for pre-funding health benefits in 2007-08; however, Executive Order S-25-06 signed on December 28, 2006, created the Public Employee Post-Employment Benefits Commission to examine unfunded retirement benefits.

9800 Employee Compensation

Base employee-compensation funding is included in individual department budgets. Budget Item 9800 appropriates funding for 2007-08 cost increases associated with existing bargaining agreements and cost increases for excluded employees. For example, many units have contracts that provide for a cost-of-living increase on July 1, 2007, the estimated cost of this increase is included in this item. Additionally, other new costs, such as employee compensation costs that result from a court order, may be included in this item.

Budget Item 9800 is proposed at \$972 million (\$468 million General Fund). Included in this amount is a funding request of \$22.7 million (\$20.8 million General Fund) to increase salaries for specified medical classifications at the Department of Developmental Services, the Department of Veterans' Affairs, and the Department of Mental Health, to bring pay in those classifications within 18 percent of the court-ordered salary for the same classifications in the Department of Corrections and Rehabilitation – the court order relates to the *Plata v. Schwarzenegger* lawsuit. No funds are set aside to pay for any potential costs related to a new agreement with Bargaining Unit 6, which represents Corrections' Officers. Unit 6 is the only unit currently working with an expired contract.

Control Section 3.60 State Retirement Contribution

This control section specifies retirement contribution rates for 2007-08 and provides authority to the Director of Finance to adjust appropriations to conform to these rates. The actual retirement rates are set by the California Public Employees' Retirement System (PERS). State costs for 2007-08 are estimated at \$2.8 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. PERS generally updates these rates at the time of the May Revision.